



## **RURAL DEVELOPMENT RURAL BUSINESS-COOPERATIVE PROGRAMS**

### **Business and Industry Guaranteed Loan Program - Quick Reference Sheet**

**Eligible Businesses:** any legal entity, including individuals, public and private organizations, and federally recognized Indian tribal group(s). No size restriction on the business. Local economic development organizations can be considered.

**Eligible Lenders:** any Federal or State chartered bank, Farm Credit Bank, other Farm Credit institution with direct lending authority, Bank for Cooperatives, Savings and Loan Association, or mortgage company that is part of a bank holding company, and the National Rural Utility Finance Corporation. These entities must be subject to credit examination and supervision by either an agency of the United States or a State.

**Eligible Purposes:** business and industrial acquisitions, construction, conversion, expansion, repair, modernization, or development costs; purchase of equipment, machinery, or supplies; start-up costs and working capital; processing and marketing facilities; pollution control and abatement; refinancing for viable projects under certain conditions.

**Loans may not be guaranteed** for a line of credit, agricultural production which is not a part of an integrated business processing agricultural products, a project that transfers employment from one area to another, payment to owners, partners, or shareholders who retain ownership in the business, pay off a creditor in excess of the collateral's value, corporations and businesses not at least 51% owned and controlled by US citizens; charitable and educational institutions, religious organizations and affiliated entities; and fraternal organizations; loans to golf courses, gambling establishments, and race tracks.

**Eligible Areas:** rural areas including all areas other than cities of more than 50,000 people and their immediately adjacent or urbanizing areas. Priority is given for loans in rural communities of 25,000 people or less.

**Interest Rates:** are established between the lender and borrower. Interest rates should not be more than the rate customarily charged in similar circumstances in the ordinary course of business. Lenders are encouraged to utilize the secondary market and pass interest-rate savings on to the borrower.

**Equity Requirements:** Tangible balance sheet equity, as determined in accordance with Generally Accepted Accounting Principles, of at least 10% for existing businesses and 20% for new businesses is required at the time the Loan Note Guarantee is issued.

**Personal and corporate guarantees are required.**

**Maximum Loan Amount** is limited to \$10 million to any one borrower, although the RBS Administrator can approve up to \$25 million.

**Loan Guarantee Limits:** 80% guarantee for up to \$5 million  
70% guarantee for over \$5 million and up to \$10 million  
60% guarantee for over \$10 million and up to \$25 million.

**Collateral - Appraisals:** All collateral must secure the entire loan. Repayment must be reasonably assured. A qualified appraisal report is required on property to serve as collateral. Equipment appraisals must be conducted a professionally qualified appraiser. Minimum 1 to 1 LTV is expected.

**Loan-to-Appraised Market Value Ratios:** Lenders will discount collateral consistent with sound loan-to-value policy. Collateral must have documented value sufficient to protect the interest of the lender and Rural Development.

**Maximum Repayment Terms:** Working Capital - 7 years  
Machinery and equipment - 15 years (or useful life)  
Real Estate - 30 years.

**Fees and Costs:** A one-time guarantee fee of 2% of the guaranteed principal is paid by the lender and may be passed on to the borrower. There is also an annual servicing fee of .25% of the outstanding principal of the guaranteed portion of the loan. Typical lender costs can be expected to occur.

**Credit Quality:** Addressed by the lender, includes the business adequacy of equity, cash flow, collateral, history, management, and the current status of the applicable industry in a written credit analysis.

**Servicing and Liquidation:** annual financial statements and a written analysis will be performed annually by the lender. The lender and Rural Development will meet annually to discuss the status of the borrower. Lenders will service and liquidate (with Rural Development concurrence) the loan if necessary.

**Benefits to Businesses:** Assists businesses in providing stability, growth, expansion and rural employment. Businesses benefit from higher loan amounts, lower interest rates, and longer repayment terms.

**Benefits to Lenders:** Provides lender a tool to expand portfolio, improves economy and quality of life in rural areas, reduces concerns regarding collateral/appraisal issues, allows lenders to make loans above their legal lending limit, no draw on bank reserves, protects bank liquidity, guaranteed portion of the loan can be sold on the secondary market, increased earnings, rate of return increased and helps lender to meet the Community Reinvestment Act (CRA) requirements.

**Benefits to Rural Development:** Improves customer service, improves liquidity management and reduced risk/exposure.

**For more information, please contact:** Rural Development  
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